



USIC

moving forward

United States Industry Coalition, Inc.



2000-2001
Annual Report



USIC and its Mission

The United States Industry Coalition, Inc.

is a non-profit association of American companies and universities who are active partners in our nation's long-term nonproliferation efforts with the former Soviet Union.

Our mission is to facilitate the commercialization of technologies for peaceful purposes. We aim to achieve this mission through the cooperative efforts of USIC members, the U.S. Department of Energy Initiatives for Proliferation Prevention program, other U.S. Government agencies, and the scientific institutes of the New Independent States.

This simple phrase accurately captures the exciting progress made in the past year by USIC, its member companies and the IPP program.

...moving forward

Our forward motion has been visible. Some members have already commercialized their projects, and many others are on the brink. Other USIC members have succeeded in raising substantial amounts of investment capital to move into commercialization. Congress has recognized the growing success of the USIC-IPP program by authorizing and appropriating larger amounts to our program.

These achievements have brought us to the point where we can begin to deal with other challenges, ones that we did not have the luxury of being able to grapple with in the past.

In short, USIC is doing well because its membership has begun to succeed in commercializing science from the former Soviet Union. We are moving forward from success to success.



Victor E. Alessi
President & CEO
United States Industry Coalition, Inc.

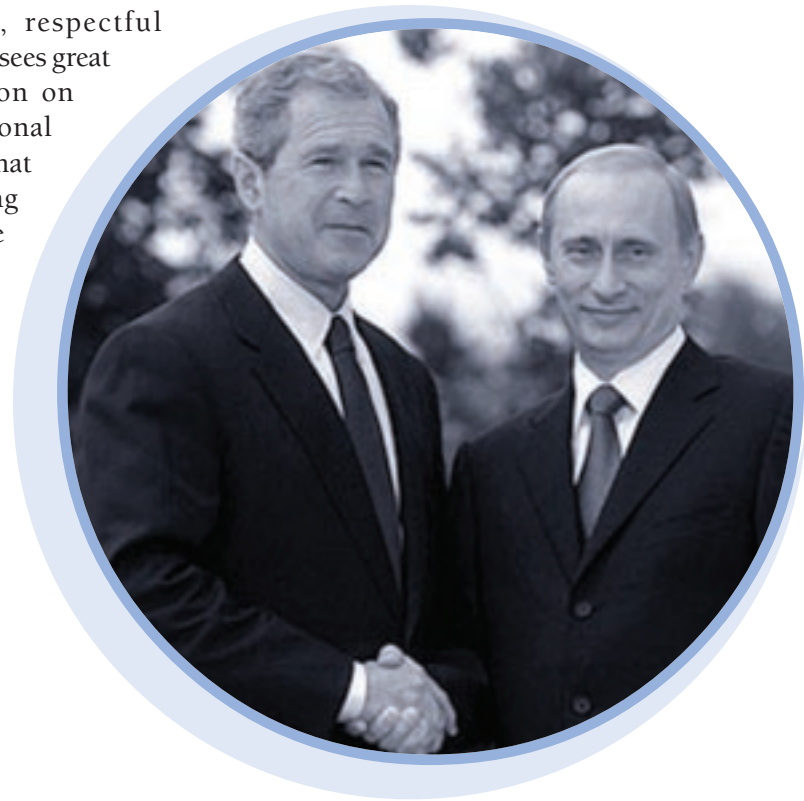


Steven P. Kadner
Chairman
USIC Board of Directors

New Presidents take the Helm

All of this good news has taken place in a larger context. A new Russian President, Vladimir Putin, was joined in January by a new U.S. President, George W. Bush. Bush and Putin have met twice and it is clear they are intent on forging a working relationship that will move beyond the stalemated situation that has dominated U.S.-Russian relations for over the past five years. Both men recognize that the United States and Russia have common interests and shared responsibilities.

Symbolic of this new relationship was Putin's warm message of sympathy for the United States in the aftermath of the attacks on the World Trade Center and the Pentagon, and his willingness to help the United States in efforts to bring the terrorists to justice. President Bush has let it be known that he desires a constructive, respectful relationship with Russia. Bush sees great opportunities for cooperation on economic, commercial, regional and security issues. The fact that their next face-to-face meeting will take place at the more intimate setting of the Bush family's Texas ranch is a sign that they are doing well in working together.



In an open letter to USIC members, Vic Alessi described his experience as an American in Moscow on September 11 and the days thereafter. Throughout the report are some responses of USIC members to his call for renewed commitment to the goals of the IPP program.

Challenges and Growth on the Economic Front

This good news is, of course, tempered by the yearlong slowdown in the U.S. economy. As of this writing, it is uncertain whether the United States will avoid a recession. At best, we shall just skirt one. This downturn, after years of rapid stock-market growth, has had a sobering effect on the money markets that had begun to view growth as a national birthright. It has had a negative effect on the willingness to invest in high-tech products. The terrorist attacks in New York and Washington have made the situation worse, despite the remarkable show of national unity and determination.

Despite this situation, the outlook for new businesses in Russia is promising. Spurred in part by last year's rise in the price of oil, Russia's economy has begun to grow. Anyone who has visited Moscow in the last year has seen new construction, restoration of old buildings, full restaurants, busy stores, and other signs of new prosperity. This is a good time for our members to commercialize the high-tech and science of Russia.

In fact, eight members started commercializing their IPP projects this past year. Another 20 or so are positioned to do the same in the next year. Several of these are expected to be huge endeavors bringing in hundreds of millions — if not billions — in revenue. Three of our companies — Stolar Horizon, Paratek Microwave, and Numotech — have attracted substantial amounts of investment capital from banks and other financial institutions. Others are negotiating with such institutions and expect to attract new investments before this year is over. These developments are the pivotal factors in USIC-IPP moving forward.

“What a wonderful note. I too have been inundated with well wishes from my Russian colleagues and friends. I have no doubt that the Russian people are grieving with us... I agree with you: now, more than ever, we need to implement the goals of USIC. You can count on my support going forward.”

—Jeffrey J. Faszczka, HS-Nauka, Hamilton Sundstrand, United Technologies Corporation



News crews covered announcement of Stolar Horizon funding.

Telling the Story of Success

USIC played a leading role in orchestrating press briefings this past year in which we helped highlight the impending success of three USIC members: CTG/LUXOFT, Stolar Horizon and Numotech.

The unusual partnership of CTG, Inc. of Pennsylvania with LUXOFT, a leading Russian I.T. company, will launch a project for re-training nuclear scientists at the Kurchatov Institute of Atomic Energy in Moscow for work in software development for U.S. industries. This ambitious project, announced in late September, has the potential to move hundreds of nuclear weapons professionals into profitable commercial work.

Stolar Horizon of New Mexico has three projects that promise to revolutionize the exploration and retrieval of coal, methane gas and oil. The company's radar technology will also be instrumental in producing thousands of landmine detectors as part of the humanitarian goal to eliminate this deadly scourge from countries throughout the world. Stolar Horizon is partnering with Sandia National Laboratories, the DOE's Kansas City Plant, Russia's Institute for Measuring Systems Research, and SPEKTR-Conversion on these notable projects.

Numotech, a small California company also working with Sandia and SPEKTR-Conversion, will soon produce a wheelchair seat cushion that will help treat and prevent the costly and sometimes deadly pressure sores that afflict millions of persons immobilized by disease or spinal cord injuries.

Sen. Pete Domenici and Rep. Heather Wilson examine radar technology as Larry Stolarczyk (L) explains.





Numotech and Sandia officials signed CRADA following Capitol Hill press briefing

Both Stolar Horizon and Numotech have attracted significant outside investment that will enable them to capitalize the production phase of their respective projects. Our efforts in carrying out briefings on these two projects were helped immeasurably by Senator Pete Domenici and his staff.

members are doing through the IPP program. Each project shows how U.S. industry, working in partnership with former Soviet scientists, can indeed successfully create new and important products for the global market. They are strong demonstrations of how the IPP program can play a significant nonproliferation role by preventing a brain drain of unpaid or underpaid weapons scientists, engineers, or technicians. These and all other IPP projects will create commercial and well-paying alternatives for these persons. USIC intends to stage additional press briefings and conferences for its members' projects when the time is ripe for commercialization.

Each press briefing offered a dramatic demonstration of the valuable work USIC

Rep. Curt Weldon joined leading Russian and U.S. officials for launch of CTG-LUXOFT project.



“We are four square behind the efforts of USIC, the President, Congress and America. Thanks for your message.”

—Andy Rutkiewicz, TRACE Photonics, Inc.



Growth in Membership: Strengthening of Services

During the past year, USIC grew by 10 percent to a new high of 107 members. This increase was due to slightly more companies initiating new IPP projects than those whose efforts came to a conclusion. Small business continues to command the overwhelming majority of USIC members — at 62 percent, these entrepreneurs represent achievement of another key goal of the IPP program: stimulation of new jobs and profits for small businesses across America.

The addition in January 2001 of a new fulltime Technology Commercialization Specialist has enabled USIC to step up its services to members. Market assessment, assistance in business plan development, and review of project proposals are now available on a regular basis to our primary members.

Our June 2001 survey of members elicited responses from one-third of the membership. Our programs and services generally earned high marks, but some frustrations were justly expressed about the delays in project approval and funding experienced by many members in the past year. While we are confident the problems of the past year are behind us, we are now planning new services to help meet our members' needs and to clarify what is available through our offices.

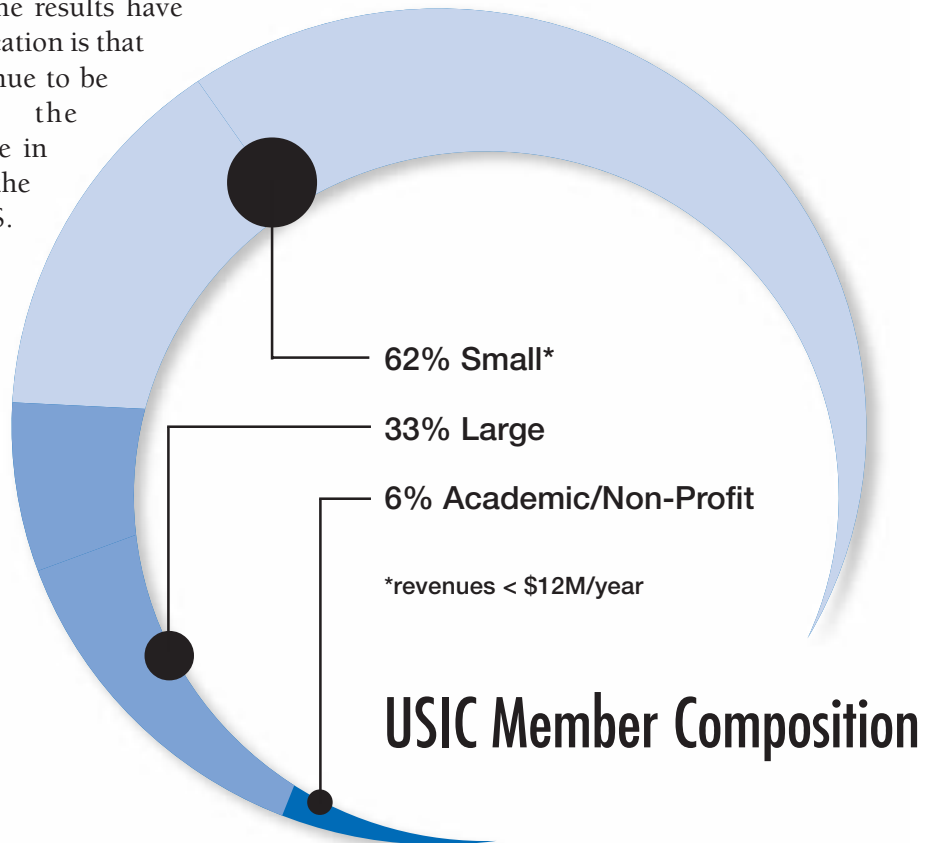
Communication with USIC members and colleagues was stepped up this year. Five issues of USIC E-NOTES, our periodic electronic newsletter, were released to a small but influential audience of USIC members, representatives of federal agencies, Capitol Hill staffers, and leaders at other organizations with shared interests in nonproliferation and technology commercialization.

The popular USIC “posters” – colorful one-page summaries of various projects and the technologies under development – were translated into Russian over the summer. We are pleased to have this new tool to help broaden our outreach to government and business officials in Russia and other nations.

Finally, after a one-year trial, the new “Associate Member” category was introduced in July 2001. USIC Associate Membership is available at a nominal annual fee to individuals and organizations with interests in the USIC-IPP arena.

Passing Muster in Rigorous Reviews

USIC-IPP is seen today in a new light. The program has moved well beyond the criticisms made by the General Accounting Office several years ago. Our recent accomplishments show that the U.S. government's effort to stem a brain drain of weapons of mass destruction scientists is beginning to pay dividends. Recently, the Administration conducted an internal review of all Russian programs. Although the results have not been made public, every indication is that IPP did very well and will continue to be strongly supported by the Administration. This confidence in USIC-IPP is reflected as well in the legislation enacted by the U.S. Congress. At this writing, bills in both houses strongly support and increase funding for IPP.



“Your note, and the comments relating to the reaction of the Russian people to the September 11 tragedy, is indeed very touching. The letter gave me a much better (and needed) appreciation of how the Russian people viewed this situation, from the perspective of someone who has experienced it first hand ... What has emerged from these unfortunate incidents has been the rekindling of the resolution and strength of the American people – qualities that have taken us to great heights in past centuries. As you very eloquently pointed out, it is important that we all work together towards the eventual goals of this noble cause and I commend your — and USIC’s — efforts.”

—Prem Warrior, Ph.D., Valent BioSciences Corporation



moving forward...

into new Offices

Part of the new energy surrounding USIC is reflected in our new office space at 1525 Wilson Boulevard in Arlington, Virginia. After nearly two years as tenants in the offices of the U.S. Civilian Research & Development Foundation (CRDF), we moved in September to larger offices in order to more effectively handle our growing responsibilities – and to make room for CRDF's ongoing expansion. Our conference room and workstations are available to USIC members travelling to the D.C. area who may need a place for meetings, to relax between appointments or simply to access the Internet. We extend our appreciation to our CRDF friends for their generosity throughout our tenure, and hope all of our associates will stop by to see our spacious facilities.

“I was with senior DOE officials the week following the atrocities and tried to make the case for expanding IPP as part of our renewed national anti-terrorism resolve. I wish I had been as eloquent and persuasive as you were in your communication to USIC members. Hundreds of U.S. corporations want to “do something” — something beyond aid to the victims and their families. I think USIC can give them an opportunity, and I hope you will. I would like to work with you on that effort.”

— Cornelius Milmoie, Milmoie Consulting Services, LLC

Solving Difficult Problems

Despite our success and forward movement, USIC cannot afford to rest on its laurels. We must push for quicker routes to commercialization by concentrating on problems standing in the way to continued success. We recognize that time is not our friend, but our enemy as we try to commercialize technology.

Four areas must claim our particular attention:

Speedier Review and Approval of Project Proposals

The slow pace of approving and funding IPP projects has been a source of frustration and disappointment for many of our corporate members. This issue is at the top of our list to address and resolve. To this end, DOE and USIC have forged a closer working relationship which will make it easier to streamline this process within the U.S. government.

Intellectual Property Rights

Intellectual Property Rights (IPR) is a difficult area that is not yet sorted out in Russian law. Our goal will be to ensure that, regardless of who actually owns the IPR, our member companies at minimum will have unambiguous licensing rights on the projects they support. We plan to be more actively engaged in this area and to work closely with DOE in the next year to ensure that our companies are properly represented at all phases of IPR negotiations.

Smoother Funding Mechanisms

It is essential for USIC to focus next year on speeding up the funding process. The use of the International Science & Technology Centers (ISTC) as the vehicle through which IPP projects with MINATOM institutes are funded on a tax free basis is consistent with the multinational ISTC agreement negotiated by the United States, the European Union, Japan, and Russia. Unfortunately, the first year of using this vehicle has proved to be difficult and slow. This is a concern of the State Department, which sponsors the ISTC. It was raised at the recent board meeting of the ISTC in Moscow by the U.S. and with MINATOM several days later. USIC plans to work closely with the ISTC and MINATOM to streamline the process.

Contracting

The final area of focus is the contracting process. USIC plans to broaden its capacity to support our members in this process, whether they are contracting with their NIS or DOE National Laboratory partners.



A Firm Resolve, Renewed Commitment

As we at USIC move forward with our IPP partners at DOE, we do not doubt that there are storm clouds on the horizon. We hope and pray that the terrorism that so devastated New York City and the Pentagon will come to a speedy end, and that those responsible will be brought to swift justice.

Nevertheless, the events of September 11, 2001 will only strengthen USIC's resolve to carry out its mission on behalf of its more than 100 members... *to prevent the spread of weapons of mass destruction and the expertise to fabricate them by creating jobs for the men and women who used to make them for the former Soviet Union.*

Our companies and we are committed to a peaceful world. Our work is a key to a successful U.S. program to prevent the proliferation of weapons of mass destruction and the terrorism it spawns. Our companies are up to the task. They are in this special initiative for the long haul. So is USIC.

Sincerely yours,

Steven P. Kadner
Chairman

Victor E. Alessi
President & CEO

“American, appropriate, eloquent, meaningful and inspiring.”

—Alan F. Felton, Felton International, Inc.

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Albuquerque, NM

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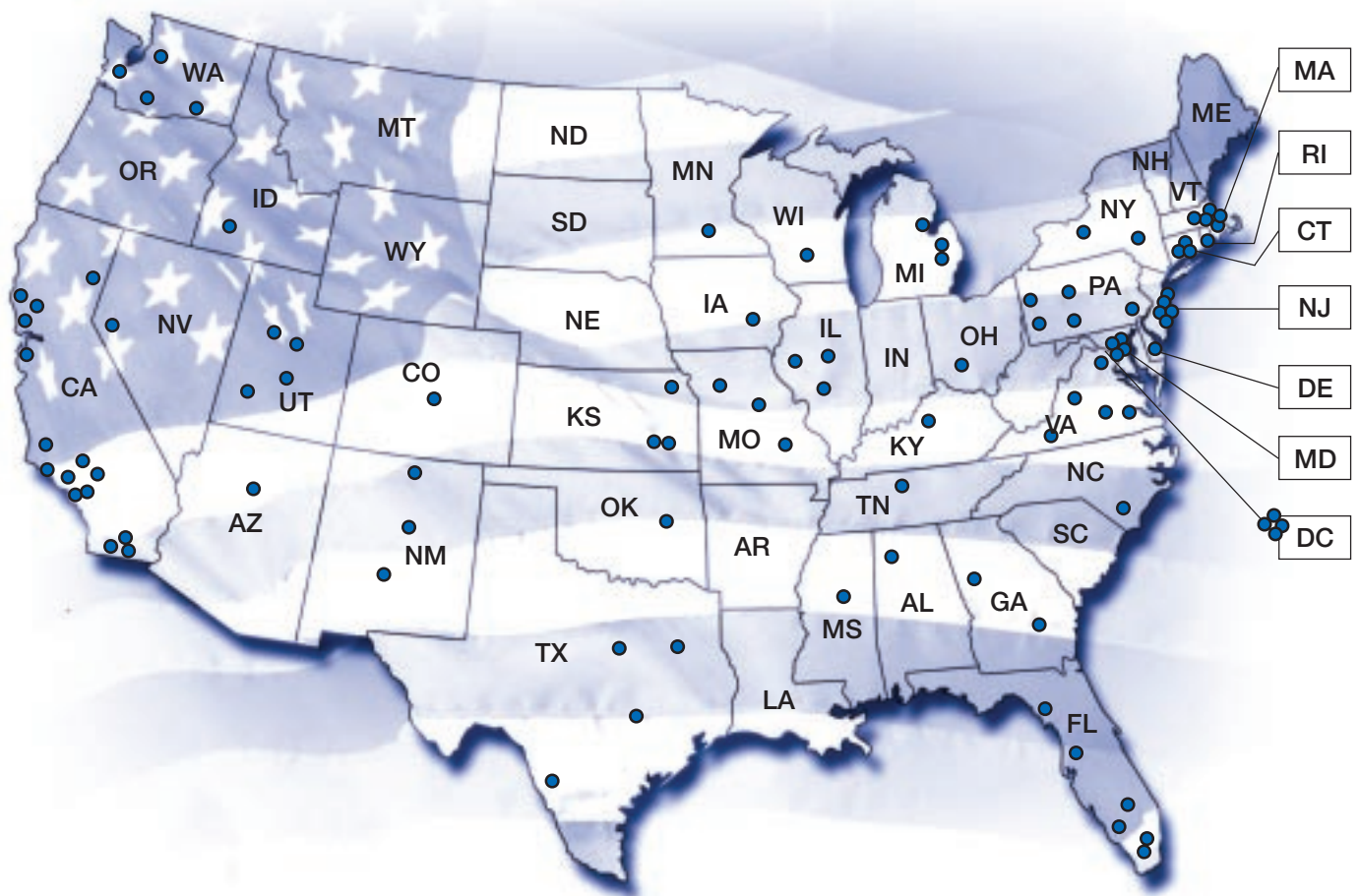
James E. Thompson

Dean, College of Engineering

University of Missouri – Columbia
Columbia, MO

* Non-Voting Members

USIC Member Locations



USIC Members

as of September 30, 2001

Primary Members

Acspect Corporation
Advanced Biotherapy, Inc.
Advanced Composites Structures, LLC
Advanced Technologies Industries, Inc.
AgraQuest Inc.
AlphaMed, Inc.
American-Russian Environmental Services, Inc.
Aquila Technologies Group, Inc.
Archer Daniels Midland Company
Argonide, Inc.
AS&E High Energy Systems
Atlas Weathering Services Group
Axcelis Corporation, Inc.
BASF Corporation
Battelle Memorial Institute
Bio-Nucleonics
BNFL, Inc.
Boeing
Brookhaven Technology Group, Inc.
Brush Engineered Materials, Inc.
Bryant College
Burle Industries, Inc.
Chevron Corporation
Cordin Company
Credit Suisse First Boston
CTG, Inc.
Cyclotec Medical Industries, Inc.
Dexall Biomedical Labs, Inc.
Diversa Corporation
Dupont
Dye Seed Ranch
Earth Search Sciences International
Eaton Holdings Ltd., Inc.
Energy Conversion Devices
Excom, Inc.
Felton International, Inc.
Fenix Technology International, Inc.
Flint Hills Scientific, LLC
Flowserve Corporation
Fresenius Medical Care N.A.
Fuel Cell Energy, Inc.
General Atomics
Global Nuclear Fuel-Americas, LLC
Halliburton Energy Services, Inc.
Icon Genetics
Industrial Cleaning & Environmental Services, Inc.
Informed Diagnostics, Inc.
Institute for Applied Science
Isonics Corporation
Kirkham Motorsports
Lakrom, Ltd.
Materials and Systems Research, Inc.
MER Corporation
Mississippi State University - DIAL

MRO Software, Inc.
NAC International
Nalco Exxon Energy Chemicals, L.P.
NEOgas, Ltd.
New Horizons Diagnostics Corporation
New Horizon Technologies, Inc.
Nukem, Inc.
Numotech, Inc.
Ohio Willow Wood Co.
Paratek Microwave, Inc.
PHLburg Technologies, Inc.
Phygen, Inc.
Pinnacle Technology, Inc.
Promega Corporation
Pulse Technology Systems, Inc.
Radiant Detector Technologies
Radiation Monitoring Devices
RedZone Robotics Inc.
Sass & Sass Animal Health
Scientific Utilization, Inc.
Seattle Orthopedic Group, Inc.
SolarEn International Corporation
Spectra Gases, Inc.
Stolar Horizon, Inc.
SureBeam Corporation
Synmatix Corporation
TCInternational, Inc.
Texaco Group, Inc.
The Stanton Group
Thorium Power
Trace Photonics Inc.
Triox Technologies
United Technologies Corporation
University of Missouri-Columbia
Valent Biosciences Corporation
Veridian
Virtual Pro, Inc.
Wayne Farms, LLC
Westinghouse

Associate Members

Atlantic Logistics Inc.
Centra Technology, Inc.
Eleanor Busick, Consultant
Global One
International Technologies
Lawyers Alliance for World Security
Maverix, Inc.
Oakton International Corporation
O-Tech International LTD
Perkin*Elmer Instruments, Ortec Division
Rustec, Inc.
Sibertech
Sweet Analysis Services, Inc.
U.S.-Russia Business Council

Financial Statements

STATEMENT OF ACTIVITIES

	FY01 – unaudited	FY00 – audited
REVENUES		
Membership Dues	\$ 116,350	\$ 135,200
Contract Revenue-Gov't Contract	925,077	737,987
Investment Gain / (Loss)	(6,686)	–
Interest & other income	6,666	12,719
Total Revenues	\$ 1,041,407	\$ 885,906
EXPENSES		
Membership	\$ 99,172	\$ 32,476
DOE Co-Op Agreement	802,242	737,987
Management & General	43,148	46,043
Indirect Cost	31,789	–
Total Expenses	<u>976,351</u>	<u>816,506</u>
Change in Net Assets	65,056	69,400
Net Assets, beginning of year	<u>275,853</u>	<u>206,453</u>
Net Assets, end of year	<u>\$ 340,909</u>	<u>\$ 275,853</u>

Copies of the complete audit for FY2000 are available from the USIC office.

Financial Statements

SCHEDULE OF FUNCTIONAL EXPENSES

Expenses	FY01 - unaudited	FY00 - audited
Personnel	557,328	432,891
Conference & Seminar	1,474	10,159
Temp Services	1,117	4,046
Licenses and Fees	468	1,741
Consulting	90,395	89,733
Office Supplies	5,273	5,521
Office Equipment Purchases	33,425	2,738
Bank Fees	691	—
Telephone	13,687	15,370
Equipment Rental	7,039	6,982
Travel	39,618	82,217
Meals	1,318	9,451
Meetings	8,158	3,347
Media / Press	1,000	—
Insurance Expense	16,518	11,314
Postage and Delivery	2,928	3,170
Printing and Reproduction	15,491	10,174
Professional Fees		
Legal Fees	48,882	19,707
Computer Services	2,963	—
Accounting	76,937	61,045
Other Professional Fees	4,390	1,262
Rent	45,397	43,269
Miscellaneous	1,854	2,369
Total Expenses	976,351	816,506



United States Industry Coalition

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